

VZCZCXRO3524
RR RUEHBC RUEHDA RUEHDE RUEHIHL RUEHKUK
DE RUEHGB #4099/01 3511326
ZNR UUUUU ZZH
R 171326Z DEC 07
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC 4899
INFO RUCNRAQ/IRAQ COLLECTIVE

UNCLAS SECTION 01 OF 03 BAGHDAD 004099

SIPDIS

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: [ECON](#) [EAID](#) [EFIN](#) [PGOV](#) [IZ](#)
SUBJECT: IRAQI LEGISLATIVE CASE STUDY: JAPANESE ODA LOAN
RATIFICATION

REF: A. BAGHDAD SBU OI OF 10/24/07

- [B](#). BAGHDAD SBU OI OF 10/15/07
- [C](#). BAGHDAD CLASSIFIED OI OF 09/20/07
- [D](#). BAGHDAD CLASSIFIED OI OF 08/03/07
- [E](#). BAGHDAD 2568

[1](#). (SBU) Begin Summary: Approximately one year following initial agreement, a batch of Iraqi reconstruction assistance projects financed with Japanese soft-loans has nearly completed its journey through the Iraqi legislative process. Currently, ten projects (valued at some USD 2.1 billion) have been identified and agreed upon by the Government of Japan (GOJ) and the Government of Iraq (GOI) through an Exchange of Notes (E/N). The GOJ has encountered a number of obstacles and experienced great frustration in securing Iraqi legislative ratification for its Official Development Assistance (ODA) loans. The Japanese ODA Loan experience underscores a significant need to further capacity development within the GOI, in both the executive and legislative branches. With so much focus on the passage of key legislation by the Iraqi Council of Representatives (CoR), reflecting on the GOJ's experience may prove a useful guide. End Summary.

Background

[2](#). (U) At the Madrid Donors Conference in 2003, the GOJ pledged USD 5 billion for reconstruction assistance in Iraq, with USD 1.5 billion in grants and the balance in low interest or "soft" loans. Since then, the GOJ has been actively seeking to implement that assistance, and in early 2007 the Japanese and the GOI jointly identified 8 projects that Japan would fund. The projects include removal of wreckage from the Port of Umm Qasr as well as an effort to rehabilitate the electricity sector across Iraq.

[3](#). (SBU) To date, the Japanese have agreed (by E/N) to finance 10 reconstruction projects with soft loans worth approximately USD 2.1 billion. The loans carry an interest rate of 0.75 percent with a repayment period of 40 years (including a 10-year grace period). Originally, the Council of Ministers (CoM) sought to include the first tranche of four loans in the 2007 budget law as well as World Bank IDA and Iranian loans among others. The CoR rejected the inclusion of the loans into the budget bill, and insisted that loan ratifications be considered separately from the budget.

MoF: Azez does it all, but sometimes not

[4](#). (SBU) In the intervening period between the 2007 budget deliberations (which ended in February 2007) and the

reintroduction of the Japanese loans into a separate piece of legislation, the GOJ and GOI signed a second E/N on 9 April 2007 covering 4 additional projects raising the tally to eight. The Ministry of Finance carries the responsibility within the GOI for loan agreements; a significant portion of this responsibility apparently rests with senior advisor Azez Hassan Jaffar. Azez would have been charged with preparing the draft legislation concerning loan ratification. Ratification of any of the loans was not reintroduced in legislation until 22 July 2007 in the waning moments prior to the August recess when the second tranche of loans (E/N signed 9 April 07) had its first reading.

¶5. (SBU) Azez is similarly our primary interlocutor on a number of fiscal policy issues, including sovereign debt negotiations. Our GOJ contacts have complained that he is very difficult to reach (often traveling out of country) and, because of his involvement in so many different issues, rarely focuses on the Japanese loan issue. The GOJ has requested our help in identifying an alternate. We are unaware of anyone who might be able to fill in for Azez and believe this limitation has been and will continue to affect the MoF's capacity to deal with a range of competing priorities.

CoR Puzzled by Projects

¶6. (U) The Japanese loan legislation that had its first reading on 22 July 2007 listed only 4 of the 8 projects (specifically, the second tranche of four projects agreed with a 9 April 2007 E/N) that had been agreed. The partial listing engendered confusion in the CoR, the GOI, and the GOJ (reftel E). The projects detailed in this piece of

BAGHDAD 00004099 002 OF 003

legislation included three reconstruction projects centered in or around Basra, and the fourth an Iraq-wide electricity sector reconstruction project. Because the GOJ failed to take any action early lobbying for passage of their projects, the legislation became vulnerable to unfair accusations, namely that the projects disproportionately benefited only Shia in the south. Still, in spite of some opposition, the CoR voted 29 July to approve the ratification of a tranche of Japanese loans.

¶7. (SBU) In our conversations with various CoR members and other GOI officials (refs A-D), the CoR exhibited a poor understanding for the mechanism the GOJ used for identifying projects. Many expressed concern that the projects were not equitably distributed, but, when we reminded them that the projects had been selected at a time when predominantly Sunni areas, like Anbar, were not particularly stable, they recognized the wisdom behind why no projects were located in Sunni-dominated areas. We also stressed to our Iraqi interlocutors that the CoR should not unduly delay passage of the loans because the international donor community might balk at providing additional assistance given the GOJ's frustrations with its ODA loan ratification, which likewise registered.

PC Ratification Not Automatic

¶8. (U) Although the Iraqi Constitution (Article 138, para 5) defines the rules governing Presidency Council (PC) approval of legislation passed by the CoR -- specifically that if the PC takes no action on legislation within ten days from the date of delivery to the PC, it should be considered approved -- the Japanese loan experience illustrates it may be that in practice, no legislation will be promulgated without explicit PC approval, regardless of the time involved. For instance, the ratification bill approved by the CoR on 29 July 2007 should have been considered passed according to a strict

interpretation of the aforementioned constitutional article. However, according to CoR documentation, the PC vetoed the legislation 13 September 2007, a period of time much longer than that constitutionally permitted. Due to a lack of transparency in the transmission of documentation, the PC is able to manipulate the delivery date of documents, thus providing an umbrella to rebut any claims that it has exceeded the time allotted for consideration of legislation. When it comes to the legislative process, we have learned time and again that nothing, not even the timely delivery of documents from one IZ location (CoR) to another (PC Secretariat), can be taken for granted.

SIPDIS

Equitable Distribution Key

¶9. (U) The implied reason for the PC veto (responsibility for which belongs to VP Tareq al-Hashimi) lies in the interpretation of yet another article of the Iraqi Constitution. Article 106 mandates the establishment of a public commission, among whose responsibilities include, "(the verification of) the fair distribution of ...international loans." Our conversations with CoR members, particularly those affiliated with the Sunni al-Tawafuq Front, indicate that their interpretation of the above article is such that international loan financed-projects that they consider not equitably distributed are unconstitutional. We may expect further delays on similar loan ratification bills (the Italians have pledged a sizable amount of loan assistance to the agricultural sector) due to a provision within the 2008 draft budget bill, which calls for the equitable distribution of international loans to provinces according to population (with the KRG due to receive 17 percent), with the exception of "strategic" projects.

Engage Hashimi

¶10. (SBU) The CoR overruled the first PC veto on four Japanese loan-financed projects 17 November 2007, nearly two months after the PC vetoed it. The Japanese might have been able to dissuade VP Hashimi from issuing a veto in the first place had they lobbied him earlier in the legislative process. In fact, Ambassador Crocker garnered a pledge from VP Hashimi during a 25 October meeting that Hashimi would no longer hold up passage of the Japanese loan legislation. Regarding the separate tranche of four projects, the CoR approved the legislation 24 September 2007, with PC approval on 4 November 2007. The final two projects of the 10 that

BAGHDAD 00004099 003 OF 003

have been agreed had their first reading in the CoR on 29 November 2007.

Comment

¶11. (SBU) The Japanese experience reaffirms the necessity to further GOI capacity building efforts, particularly in the CoR. With the benefit of hindsight, several of the pitfalls the Japanese encountered might have been avoided; however, navigating GOI parliamentary procedure is a relatively new experience for all involved. In our conversations with the Japanese, they have expressed disappointment that the process has consumed much valuable time, but have expressed genuine gratitude for our assistance in lobbying for the passage of their loan ratification. In the future, early identification and lobbying of all potential stakeholders will be crucial to ensuring speedy, ultimate passage of any important piece of legislation. At each and every stage of the process,

regardless of how minor it may seem, the potential to derail any bill exists. End Comment.

CROCKER